

## **California iBank Meeting Oct. 27, 2017**

Washington group: Sen. Kuderer, Scott Merriman (OFM), Brad Hendrickson (TRE), Alan Crain (Kitsap Bank) and Dave Pringle (SDC)

California iBank: Teveia Barnes, Executive Director; Nancee Trombley, Chief Executive Deputy Director; Fritz Pahland, General Counsel; Alice Scott, External Affairs

### **Summary**

A successful meeting discussing the authority and operations of iBank in California. The iBank team provided an overview of their programs and answered questions from our group about how programs are set up, the operations and staff, and guidance and direction from statute and leadership.

This successful program provides low-cost financing to communities (particularly those with low credit ratings). The statute provides broad authority, economy of scale and minimal regulation that give it flexibility in providing low cost development funds. The iBank was originally capitalized with \$425 million, but then in 2002 the legislature appropriated \$300 million of that original capitalization amount back, which undermined the bank's ability to adequately fund its programs and generally affected its overall performance. The bank is now self-sufficient and takes no money from the legislature, relying on its portfolio and bonds.

However, the program requires a committed and professional director and staff to maximize their bond authority, control the portfolio for risk and assist applicants through the entire process. With the current director in place since 2013, they have grown more successful through her leadership and banker mentality - "bankers at heart."

### **Background**

The California Infrastructure and Economic Development Bank (iBank) is the State of California's only general purpose financing authority. The Legislature created iBank in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy, and improve the quality of life in California communities. iBank operates according to the Bergeson-Peace Infrastructure and Economic Development Bank Act in California (Government Code Sections 63000-63089.98) et seq. As of March 2017, iBank has financed over \$38 billion in infrastructure and economic development projects. iBank is located in the Governor's Office of Business and Economic Development (Go-Biz), has a five-member Board of Directors, and an Executive Director who runs the day-to-day operations.

*iBank has broad statutory authority* to issue tax-exempt and taxable revenue bonds, provide loans to state and local governments for public infrastructure and economic expansion projects and loan guarantees to help small businesses.

iBank is a self-supporting governmental entity that pays for its operations from service fees and interest earnings on loans and investments. The Infrastructure State Revolving Fund (ISRF) Program, a direct loan program, was originally funded with seed money from the State's General Fund in the late 1990's and early 2000's. ISRF loans are currently funded with the proceeds of tax-exempt ISRF revenue bonds.

### **Overview of iBank infrastructure funding programs**

Infrastructure State Revolving Fund (ISRF) Program – provides low-cost financing to public agencies and nonprofit organizations sponsored by public agencies for a wide variety of public infrastructure and economic development projects.

California Lending for Energy and Environmental Needs (CLEEN) Center – provides direct public financing to Municipalities, Universities, Schools and Hospitals (MUSH borrowers) to help meet the State's goals for greenhouse gas reduction, water conservation and environmental preservation.

Revenue Bond Financing (Bond) Program – provides tax-exempt and taxable conduit bond financing, including:

- 501(c)(3) Revenue Bonds for eligible nonprofit public benefit corporations.
- Industrial Development Revenue Bonds for qualified manufacturing and processing companies.
- Public Agency Revenue Bonds for various state entities and programs.
- Exempt Facility Revenue Bonds for projects that are government-owned or consist of private improvements within public-owned facilities

Small Business Finance Center – includes: Small Business Loan Guarantee Program (SBGLP)<sup>1</sup> provides up to 80% guarantees to lenders of loans to small businesses. Farm Loans Program provides direct loans to small farm businesses that are 90% guaranteed by the United States Department of Agriculture.

### **Highlights of Q&A with Executive Team**

iBank met with the Washington state group to discuss their programs, history and day-to-day operations providing infrastructure funding and economic development for California. They think of themselves as a bank and staff, from the director down, as "banker's at heart" in managing the portfolio and working with the local governments that come to iBank for financing.

iBank has broad authority to finance any public project except housing while other agencies have infrastructure funding available in a much more narrow focus - Treasury has some water programs, California state water Boards, and California energy Commissioner, etc.

No single borrower has more than 10% of the portfolio; money raised through bonds - issued in 2013, 2014, 2015 and 2016 (will bond again in 2018). Bonds are pledged by the loans themselves, not the full faith and credit of the state or iBank.

History - iBank was created in late 1990s and appropriated \$425 million to begin operations, but that was taken back by the legislature in the early 2000s during a recession leaving roughly \$100 million in capital and broad authority to issue bonds.

iBank bonds do not count against the state limit, but sets their own at \$5 billion. (There is statute to direct this.)

iBank is not the lender of last resort but takes on many projects from non-rated governments and sponsored non-profits. There is minimal private market competition.

iBank can get better pricing (economy of scale) and provide less transaction costs through application process and internal legal help to build capacity among clients, bundle the projects into a group and go forward with a bonding (providing efficiency savings)

Regulatory exemptions - exempt from procurement process for financing; besides board oversight and inside controls, exempt from major regulation from Financial Institutions.

No other state has come to iBank to learn more or consider it as an option like Washington has done.

Programs are managed like a loan from a bank, not a social service; staff are trained like loan officers (many come from the banking industry).

### **Challenges the Director Focuses on (what keeps her up at night)**

iBank manages and thinks like bankers, acting conservatively and managing risk.

Pre-payments. The iBank sets no prepayment until at least 8 years, mostly 12 depending on the project.

There is no advertising budget and restrictions on advertising spending which limit their reach to potential projects or communities.

Compliance and oversight to maintain smart growth

Leadership - heavily dependent on smart, experienced staff and directors to manage the portfolio and maximize the ability of the broad authority.

### **Attachments**

iBank California Code ([63000-63089.98](#))

Annual Activity Report 2016-17

Previous Annual Activity Report <http://www.ibank.ca.gov/ibank/publications/annual-legislative-reports>